R5650-2A

JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

NO. 29B
July 27, 1984

IN THIS ISSUE:

Prime Minister Reiterates Support for Fiscal Austerity 1

Democrats Urge "Free and Fair Trade" 4

American, Japanese Businessmen Call for Free Markets, Investment 6

Abe Meets with ASEAN Foreign Ministers, Proposes Peace Initiative 7

VANs Pick Up Speed as Lower House Clears the Way 8

Japanese Foreign Investment Remains on Upswing in FY 1983 10

Notes 14

Prime Minister Reiterates Support for Fiscal Austerity

Against a complex economic and political background, the debate over Japan's fiscal policy is growing more heated. With the national debt topping Y110 trillion ($458 billion) -- 39 percent of the country's total output of goods and services -- and with the construction industry still sluggish despite the strengthening recovery, the wisdom and need for a shift in fiscal policy are monopolizing the Diet's business. The situation is causing a backlog of legislation to accumulate. The debate pits those who are worried about the effects of national debt against those who are primarily concerned about sustaining the economy's recovery. Add to this the sensitive issue of expanding or cutting public works projects and the mixture becomes explosive.

Competition in the common carrier market will be heavily influenced by the regulations recasting NTT as a semipublic corporation. At present it appears that NTT will gain significant independence from the government: it will be allowed to set revenue and expenditure plans without government approval, to enter the telecommunications peripherals business and to offer VAN services. The government also intends to release up to two-thirds of NTT's shares for public sale by 1990. The new NTT will not be allowed to let telephone service in unprofitable areas lapse, and it will be required to adhere to the purchasing accord with the United States (see JEI Report No. 5B, February 3, 1984).

The reforms would seem to unleash a giant. Whether this giant will prove itself agile and clever enough to compete in the free market will be tested by several competitors:

- Daini Denden Inc. or "No. 2 Telephone Company" is led by Kyocera Corp. and presents the most serious challenge to NTT. Daini plans to lay a fiber-optic system, and is looking into satellite and microwave service (see JEI Report No. 22B, June 8, 1984).

- The Mitsubishi Group is considering a venture aimed at providing businesses with integrated voice and data communications.

- Sanwa Bank, Ltd. is also exploring a similar service for financial institutions.

As more and more foreign and domestic companies build partnerships and lay plans, a strong vested interest in ensuring fair and equal application of the new laws will arise. This vested interest is the best guarantee that the Japanese government's actions will match its words when the laws go into effect next year. The U.S. government can certainly support companies' efforts to penetrate the tough Japanese market, but the companies themselves must carry most of the burden. The Japanese telecommunications market is on the verge of explosive growth and foreigners can be a part of it if they play their cards right.

Jon Choy

Japanese Foreign Investment Remains on Upswing in FY 1983

The 1980s have marked the coming of age for Japanese corporations as international investors. At the start of the decade, their foreign direct investments added up to a rather modest $31.8 billion. Over the four years through March 1984, however, Japanese businesses pumped almost the same amount of money into overseas equity holdings as they had in the previous 29 years, pushing cumulative outlays up to $61.3 billion. In FY 1983 alone, foreign direct investment jumped by nearly $8.2 billion, buoyed by the strong recovery of the U.S. economy and improved economic conditions in other areas of the world, healthier corporate balance sheets at home, and a dip in the dollar cost of investing overseas resulting from the rise in the yen's value. An increase of 5.7 percent over FY 1982's tally, the outflow of direct investment funds during the April 1983-March 1984 period was second only to the level hit in FY 1981, when the start of several big resource development projects and a large

Japan's Foreign Direct Investment by Country, FY 1979-FY 1983

(in millions of dollars)

	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	Total March 31, 1984
United States	$1,345	$1,484	$2,354	$2,738	$2,565	$16,535
Canada	93	112	167	167	136	1,391
North America	1,438	1,596	2,522	2,905	2,701	17,926
Brazil	409	170	316	322	410	3,955
Panama	142	222	614	722	1,223	3,245
Mexico	516	85	82	143	121	1,164
Peru	1	3	4	185	0	679
Latin America	1,207	588	1,181	1,503	1,878	10,730
Indonesia	150	529	2,434	410	374	7,641
Hong Kong	225	156	329	400	563	2,387
Singapore	255	140	266	180	322	1,705
Korea	95	35	73	103	129	1,442
Malaysia	33	146	31	83	140	904
Philippines	102	78	72	34	65	786
Thailand	55	33	31	94	72	593
Taiwan	39	47	54	55	103	582
Asia	976	1,186	3,338	1,384	1,847	16,399
Saudi Arabia/Kuwait	34	63	50	41	66	1,179
Iran	76	71	0	0	0	1,003
Middle East	130	158	96	124	175	2,654
United Kingdom	67	186	110	176	153	2,448
Belgium-Luxembourg	50	77	211	191	391	1,189
West Germany	94	110	116	194	117	925
France	41	83	54	102	93	634
Netherlands	38	41	138	73	113	622
Europe	495	578	798	876	990	7,136
Liberia	130	110	466	434	323	2,015
Africa	168	139	573	489	364	2,871
Australia	566	431	348	370	166	3,048
Pacific Region	582	448	424	421	191	3,560
Total	4,995	4,693	8,931	7,703	8,145	61,276

Source: Ministry of Finance

Japan's Foreign Direct Investment by Industry, FY 1979-FY 1983

(in millions of dollars)

	FY 1979	FY 1980	FY 1981	FY 1982	FY 1983	Total March 31, 1984
Manufacturing Sector	$1,693	$1,706	$2,305	$2,076	$2,588	$19,542
Food Products	103	54	142	78	77	883
Textiles	89	91	91	67	174	1,969
Wood Products	33	78	65	76	91	991
Chemicals	238	314	228	322	450	3,626
Metals	578	493	521	468	479	4,087
Nonelectric Machinery	160	102	207	164	169	1,434
Electric Machinery	180	309	475	267	502	2,824
Transport Equipment	150	176	406	439	486	2,309
Other	161	89	169	195	160	1,418
Nonmanufacturing Sector	3,135	2,777	6,516	5,478	5,357	39,371
Agriculture/ Forestry	83	39	75	40	18	742
Fishing	72	34	36	22	17	375
Mining	857	565	2,534	685	382	10,673
Construction	85	37	96	44	55	591
Trade	834	797	1,174	1,899	1,164	9,646
Banking/Finance/ Insurance	198	380	843	533	1,167	4,969
Services	1,006	926	623	702	622	3,340
Transportation			722	924	1,363	3,009
Real Estate			167	354	375	896
Other			246	276	193	5,130
Branch Offices	63	119	110	149	200	1,768
Real Estate*	105	91	---	---	---	595
Total	4,995	4,693	8,931	7,703	8,145	61,276

*Overseas real estate transactions have been excluded from Japan's foreign direct investment data since December 1, 1980 because of changes in the Foreign Exchange and Foreign Trade Control Law.

Source: Ministry of Finance

expansion of loans from parent companies to overseas affiliates in response to the lower cost of raising funds in Japan swelled foreign investment to a record $8.9 billion.

The United States remained the prime location for Japanese foreign investments in FY 1983, attracting another $2.6 billion (see accompanying table). Nearly $1 billion was channeled into U.S. production facilities, with much of this money going into plants to manufacture electronics equipment, automotive products, metals and chemicals. Japanese corporations were also active in the U.S. banking, finance and insurance sector, although this activity was dominated by one transaction -- Fuji Bank, Ltd.'s acquisition of two commercial finance units from Walter E. Heller International Corp. for $425 million. Still, the flow of investment funds into the United States during the April 1983-March 1984 period was down 6.3 percent from FY 1982's record total, largely because expenditures for sales organizations returned to more normal levels.

Japanese corporate investors also continued to expand their stake in Europe in FY 1983, adding almost $1 billion to their holdings. This investment closely matched the spending pattern in the United States: more money was earmarked for onshore manufacturing, particularly in the electronics field, and for banking, finance and insurance affiliates, while funding of European sales organizations was scaled back. Direct investments in Australia, in contrast, plummeted to less than $0.2 billion as Japanese companies turned cautious about expanding capacity in the mining and nonferrous metals industries.

While Japan's expanding investment presence in the United States and Europe has captured the most media attention, the main areas of stepped-up activity in FY 1983 were Asia and Latin America. Equity investments in Asia climbed by a third to over $1.8 billion. Two-fifths of this money went into manufacturing, particularly into industries in which Japan has a competitive disadvantage because of either higher labor costs (textiles, for example) or higher material costs (petrochemicals). There was also increased investment in the services and real estate industries in Asia. In Latin America, where direct investments jumped by a fourth to $1.9 billion, the transportation industry remained the main attraction, although Japanese firms put more money into production facilities as well.

Despite the expanded outflow of investment funds to Asia and Latin America during FY 1983, North America solidified its position as the top location for Japanese overseas investments. As of March 1984, corporate investors had a $17.9 billion stake in the United States and Canada, with $5.2 billion invested in the manufacturing sector, particularly in electronics and transportation equipment, $6 billion in commercial businesses and $2.1 billion in the banking, finance and insurance industries. Nipping at North America's heels was Asia, where Japanese corporations had equity holdings of $16.4 billion, concentrated in metals, chemicals, textiles and other manufacturing activities ($6.5 billion) and mining ($5.6 billion). Trailing North America and Asia as an overseas investment site for Japanese companies was Latin America. Out of the $10.7 billion that had been invested in this region through FY 1983, $3.9 billion had gone into production facilities and another $2.2 billion had been spent on transportation services.

With nearly $2.6 billion going into offshore production plants during the April 1983-March 1984 period, manufacturing investments continued to represent the leading edge of Japanese capital spending abroad (see accompanying table). By the end of the fiscal year, Japanese corporations had funneled $19.5 billion into this sector, including $6.5 billion in Asia, $5.2 billion in North America and $3.9 billion in Latin America. Mining projects were a distant second to manufacturing facilities as the destination for Japanese foreign investment funds. Nearly $10.7 billion had been invested through this past March, divided almost evenly between Asian countries, especially Indonesia, and the rest of the world. The third-largest concentration of money -- $9.6 billion worth -- was in the commercial area, with over three-fifths of this amount invested in American and Canadian sales affiliates.

Susan MacKnight

Notes

• The lower house of the Diet approved the controversial health insurance reform bill July 13 and sent it to the upper house for consideration, where approval is expected. Action by the lower house cleared the way for consideration of other important cabinet initiatives, including reorganization of Nippon Telegraph and Telephone Public Corp. (NTT) (see JEI Report No. 28B, July 20, 1984).

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.